IV. CUSTOMER / KEY ACCOUNT DEVELOPMENT

Section 41

UDF - Will participate in the PRP Program. Has accepted Basic FF Menthol with a force-out of 10 cartons to each of 210 stores.

Kroger Cincinnati - Was able to obtain Marlboro stickered product from Pennsylvania for Kroger to participate in the extension on MLP. Has put Retail Masters Level 2 on hold until PRP has run its course. All packings of Basic have been accepted, and will be receiving 40 carton force-out. They have decided not to participate in the PRP Program due to having approximately $81,000 of inventory unprotected.

Giant Eagle - Accepted PRP, Basic Menthol.

Kroger Columbus - 2nd quarter volume analysis is as follows showing a substantial share gain and volume gain for PM and for total Kroger volume. Total Kroger volume up 7%. Total PM share increased from 36% 1st quarter to 47.8 2nd quarter, RJR decreased from 36 to 28.6. B&W and ATC from 7 to 5.9. Basic has captured a 1.9 share in 2 qtrs.

Section 42

A&P/Farmer Jack - We are in the process of completing the installation of Checklane hardware in all self-serve A&P/Farmer Jack stores. This merchandising has been most effective in featuring our Marlboro Leadership Program, as well as gaining additional exposure in support of Marlboro and Basic within this chain group.

During the past presentations at A&P/Farmer Jack headquarters, we have dealt with their inefficiencies in their cigarette ordering system to stores of 5 carton minimum per packings. Since this presentation was made, A&P/Farmer Jack upper management has changed this procedure. Now when the stores order 1 unit, this will represent 1 carton, not 5. As a result of their past ordering procedures, we have found many low and out-of-stock conditions in the stores. Most store personnel would only order 1 unit, or 5 cartons, when they were down to 1 carton on hand, thus creating the out-of-stocks. We feel we will better control inventories through the new ordering procedure.

F&M - Checklane hardware has been ordered for all F&M stores. Displays will be placed at each checklane in every self serve store. The completion of this project is projected within the next 30 days.

Perry Drug - Perry Drug has refused Basic distribution for their stores. They have also notified their secondary supplier that they are not to place Basic in any locations. The comment received from their buyer was that most consumers will purchase Monarch or Best Value if Basic is not in their stores. They also commented that they do not want Basic to dig into their Monarch or Best Value business. It is our belief that R.J. Reynolds is rewarding Perry for sales volume increases on these brands.

Eastern Tobacco - Eastern is in the process of opening 2 additional Smoker's Express stores. The first store, that opened 3 months ago, is now in non-compliance with our Retail Masters Program. They allowed R.J. Reynolds to feature low profile carton fixtures in front of our carton fixtures. When you approach the store, R.J. Reynolds currently has dominance in both visibility and availability of product. With the 2 new store openings, we hope to resolve this issue.

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Source: https://www.industrydocuments.ucsf.edu/docs/yjxl0000

K-Mart - We received, and installed, 5 checklane displays in a K-Mart test store at 18 Mile and Dequindre. The displays were viewed by K-Mart's cigarette buyer, as well as the Merchandising Department. 2 displays were removed from this store and placed in the Lake Orion store for testing purposes. The Lake Orion store features a rounded pole versus a square pole. Installation has been secured, however, we may need to change the back brackets on the displays to make it stable on the rounded pole.

It was reported that once K-Mart received our letter informing them about non-payment for the 1st and 2nd quarter of 1993, the following occurred:

1. K-Mart VPs and Managers held a meeting on 7/16 to discuss this issue.

2. It was determined that Marlboro would be moved to the bottom shelf and all other Philip Morris brands would be discontinued.

3. K-Mart may remove all related PM products from the store, i.e. KGF and Miller products.

4. K-Mart was supposed to have a meeting with all other cigarette manufacturers to determine if they would make up payments that K-Mart lost from Philip Morris.

5. K-Mart was meeting with their suppliers and distributors on 7/20/93 to discuss the effects of this on their business and their Wholesale Master Programs. Several distributors reported to K-Mart that if Philip Morris was removed from the stores, it would be difficult for them to continue to supply K-Mart since they are working on low volume and low margins in the full service program that they are currently providing K-Mart.

6. K-Mart also held a meeting on 7/20/93 with Bryan Schuyler, Barry Hopkins and Jim Szudzik.

It is my belief that K-Mart will make every attempt to comply with our Retail Masters Program due to pressures put on them by suppliers and distributors, as well as competitors such as Walmart and Target. We believe that K-Mart could ill afford to remove Philip Morris from their stores.

Mobil - Mobil has accepted all packings of Basic and Unit Manager Leo Carr has arranged for an automatic distribution of said packings to all corporate stores. The 3 Tier Display will be used to merchandise the brand family. The account is reporting that the MLP is selling very well. No numbers yet. Currently the program is running at 120%.

Eby Brown - On July 30-31, Section 42 participated in the Michigan Eby Brown Trade Show. In addition to selling product and promotions we will have a drawing for a putter and a Marlboro umbrella. Our objective is to sell 1 million units of Marlboro during this trade show. Independent accounts purchased 1,000,400 units. Total chain information not reported yet.

Next Door Foods - With the arrival of back ordered overheads and CF displays, installation and final implementation of Retail Masters took place the week of July 19, 1993.

Giant Supermarkets - With Roundy's purchase of Bay City Milling, the status of Retail Masters with Giant is uncertain. After initial commitment, they are now stalling, claiming that they are trying to decide if they should take the entire department non-self service. In several locations, they have taken cartons non-self service recently.

King Michigan - On July 15, 1993, King had their annual trade show in Livonia. Due to budget restrictions, we were unable to attend. We did, however, supply samples, incentives and a door prize to establish some exposure. All other tobacco companies were in attendance.

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Source: https://www.industrydocuments.ucsf.edu/docs/yjxl0000

King is actively looking for new locations and hopes to open 2 more Smokers Hub stores by years end. Both existing locations are proving to be very successful. We are classifying them as a chain and David Rainey and Mark Barton are now the primary account contact.

Jims IGAs - We have come to terms with Jim Blewett, owner of 4 supermarkets in the UP. As you know, Jim was threatening legal action, claiming that PM was signing vertical merchandising agreements in Wisconsin and at Walmart and Super One Foods (1 Super One Food is a direct competitor of Jims IGA). After consultation with legal council Jackie Gilbert, Juanita Liimatta, Orlin Bowman and David Rainey, met with Jim Blewett on July 13, 1993. We agreed that PM and RJR would each provide their own pack fixture and their own promotional floor display. It was also agreed that the current RJR carton fixture would be vertically merchandised with PM and RJR splitting the top shelves and the signage. We re-set the carton fixtures on July 14-16. Jim signed plan-o-grams for each store. Hopefully, this will resolve this issue.

Admiral Petroleum- Both the Wholesale and Retail Price Reduction Programs were presented to this account. While they understand the necessity for Philip Morris to take this action, their overall feeling is that the program will cost them a large percentage of their profits. As it currently stands, Admiral makes the majority of their profits on the low end products (as much as $2.50/carton) and very little on the high end (around $.45/carton). During the Marlboro Leadership Program, they have experienced a significant shift in volume from the low end to Marlboro, and this has resulted in a significant decline in profits. They envision that this scenario will continue with our new pricing actions and further undermine the profitability of their stores. They are currently reviewing their retail pricing to determine if some of these profits can be retained.

L&L/Jiroch - Based on a request from L&L/Jiroch, a wholesale program was developed to further enhance Basic's position in the marketplace. This program was a three part promotion to offer retail customers of L&L a summer full of Basic savings.

The promotion information was delivered to select L&L retailers prior to our first FSI for Basic. In the kit was a counter card to announce the upcoming FSI, an offer for the B2G1F promotion and a teaser for another promotion in August. While there were problems putting the promotion together in the short time period that was available, issues were worked through and it will be hitting retail stores this week. We are now working on the third part of this promotion and it will be finalized and shipped to retail sometime in August.

D & W Supermarkets - During the last week of June and the first week of July, all stores were set with our new package fixture hardware. Service centers were set with new PM carton hardware. D & W requested a change on the value carton side of the fixture from what was placed and also requested that casters be placed on these fixtures. All parts for this retrofit have arrived and these fixtures will be changed to the new configuration during the first week of August.

Hardings Supermarkets - Since terminating this account's Retail Masters contract, SAM G. Barton has resumed negotiations with the account. Values have been agreed to buy by both parties and it is projected that all Hardings stores will be reset during the latter part of August 6. Since the termination of their original contract, this account has been more willing to deal with the core issues and the contract that will be signed will be more to our advantage than the first.

Section 44

Clark Oil Chicago - They are participating in the Price Reduction Program on August 9, 1993. They continue to go through a major restructuring within the Western Business Unit.

Jewel Food Stores - They have closed 20 stores, mostly inner city in the last month.

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Source: https://www.industrydocuments.ucsf.edu/docs/yjxl0000

45 **Personnel** - Our new sales representatives from our University Recruitment Program (7 in total) are coming along very well, aided by the efforts of all managers and particularly Mark Moore, Section Trainer. Mark is working one-on-one with each new rep multiple times, and this is helping these people get up to speed in record time.

We're down to two final candidates for our second Bloomington based District Manager. I hope to have this new DM and District configuration in place by September 1, 1993. The Green Bay District office will be officially closed on September 1 also, although most of the furniture and office equipment has been shipped out already. John Hollenbach will also be located here in Bloomington effective 09/01.

We're presently recruiting for an additional four sales representative vacancies and I am working with the University of MN, WI and Marquette to fill these ASAP.

Our summer interns, Jon Schulz from U of WI - Madison, and Eric Slagle from U of MN, have been outstanding performers and a great help to us in the Twin Cities this summer. They'd both make excellent sales representatives. This is a program I want to strongly encourage for future.

Region Events

Section 42

Marlboro 500 - On July 31st and August 1st, we hosted the Marlboro 500. Attendance from our accounts was excellent and it gave us the opportunity to visit with VPs and Operations Managers of Kroger, Clark Oil, Arbor Drugs, CMS and Eby Brown, Glenns, Conlee Oil, Hop-In, American Gas & Oil.

PM Gannet Golf Outing - This event will take place on 8/23/93 at the Plum Hollow Golf Course. Invitations have been mailed out to key customers and we are anticipating an excellent result.

MDVA Convention - The MDVA convention is coming up the weekend of 8/20 through 8/22. We will be participating in the Trade Show at the convention and this will give us additional opportunities to network with our customers.

Section 45

Sturgis Bike Rally, Sturgis, SD - RJR is scaling back the promotion for this year's event. RJR manufactured only 10,000 Camel shirts vs. 50,000 last year. The shirts are sold only in SD via pack promotions. Marlboro should have dominant presence.

WI State Fair - All elements are in place for promo. Needs: Format for retail tie-in for all community marketing events.

Business Results - Recent Ameritech golf outing in Chicago has allowed for price reduction ad in Roundy's. This gain was the direct result of meeting the right players.

Data contributed from Section 41, 42, 44 and 45. Section 43 did not participate this month.

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Source: https://www.industrydocuments.ucsf.edu/docs/yjxl0000

JULY MONTHLY HIGHLIGHTS
REGION 5

I. VOLUME (8/17/93)	Month	YTD	% Change YTD
Marlboro	944.4	10,963	-23.3
Premium	297.3	3,954	-30.2
Discount	259.9	4,994	47.0
Famous Value	72.0	2,168	57.6

II. PM U.S.A. BRANDS

A. New Products

Basic

In Section 54, the brand continues to receive heavy emphasis in gaining distribution and depth of inventory. Basic Menthol Full Flavor availability initially was limited at wholesale; inner city areas reporting favorable response with sales of 100's better than that of Kings.

B. Full Margin

Marlboro Leadership Program (MLP)

In Section 51, MLP II has been extremely successful. Sales Reps are reporting that many former Marlboro smokers are switching back from discount brands.

Key to success thus far has been the support of the Kelly workforce. Additionally, the use of Matrix Marketing to facilitate calls from non-workload accounts has proven to be a very useful and effective mechanism. However, Section 53 found the Matrix faxes and the MLP Retail Request Forms were often times duplicated, resulting in additional time spent with unnecessary paperwork. Section 52 and 53 retailers expressed their dissatisfaction with regards to the payment method of the program; we have some retailers who prefer immediate payment through Flex Check rather than waiting for the invoicing. This is a major concern, i.e., in 7-Eleven franchise stores in Las Vegas and Arizona, many franchisees are very upset that our checks will be late. At 7-Eleven, checks must be received by the end of the month or the monies spent will be counted against their profit.

In addition, the administrative time spent by SR's and UM's who now must pay through local invoicing is difficult to justify when field activity needs to be sales focused. There are numerous examples of SR's having to retrieve documentation from the account, run to a copy shop and return the document to the retailer for an adjustment of less than $100. What is a major concern, however, is the length of time to process the W-9 forms through Richmond which can take up to several weeks.

In Section 54, the program continues to be an outstanding success at retail. Administration, however, continues to be extremely difficult with documentation on over budget accounts and the workload of issuing checks by Unit Managers. During the month, it was noted that several larger accounts were not enforcing the 2-carton limit and were subsequently shut down. A number of complaints were received from wholesale accounts during the month that their sub-jobbers were purchasing on retail.

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Source: https://www.industrydocuments.ucsf.edu/docs/yjxl0000

Marlboro Van Program

Section 53 reports excellent consumer and retailer response from all markets. Van personnel have reported store sales greater than anticipated, creating out-of-stocks on some packings. However, Powerforce is reporting out-of-stocks on many popular items with delays in receiving incentive items. Through our main warehouse we were able to help out by providing some past field incentives in the interim.

In Section 54, the program continues to generate increased sales and consumer awareness. Some difficulty was encountered with anti-smoking demonstrators in the tri-county area; due to the intensity of this, some vans have been reallocated to other geographies.

Price Reduction Program

In Section 51 & 52, overall, the major impact regarding our Participation Program was less than enthusiastic, but once the competition basically reacted with no program, we suddenly became very popular with the trade.

Section 53 reports refusals of some large chains such as Safeway, Save Mart, and Lucky's to sign the PRP agreement due to large inventories and the short lead time to reduce these inventories with payments not sufficient.

C. Price Value

Basic

"Meets Comp" has been used widely throughout Section 51 and in the Fresno market in Section 53 to meet pricing on RJR, B & W and L & M Black & White initiatives. We have been able to utilize this tool to both maintain and increase distribution with Basic. We anticipate repeating these "Meet Comp" offers once existing dollars expire.

III. COMPETITIVE ACTIVITY

R. J. Reynolds

Response to our retail PRP has been isolated to select accounts where they have offered inventory protection. In large part, however, their ability to impact against PRP has been minimal at best. There have been many situations where RJR has compromised their relationship with key accounts by not having a program.

In Section 52 and 53, we have received word of a strong rumor that RJR wants to make Monarch a national brand and has advised retailers to switch from Best Value to Monarch as their sole Deep Discount brand, therefore adding it to distribution, and have hinted at the fact that they will discontinue Best Value and many of their private label -- Jacks, Austin, Sundance, etc. Northern California reports a special sales rep has been hired to work Monarch.

Thrifty Drug is reporting receiving RJR's Value Sense. No other details available at this time.

In Section 54, RJR attempted to match PM's leadership pricing without asking retailers to co-fund the promotion. Payments have generally been made upfront at the start of the promotion.

A number of reports were received concerning Winston Select where new light packings were introduced in both King and 100 mm size Box and Soft. Promotions included cartons offering a "Buy Five, Get Five Free" and a B1G1F.
Buydowns on Winston Select were also noted with pricing between .99¢ and $1.70 per pack.

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Source: https://www.industrydocuments.ucsf.edu/docs/yjxl0000

Brown & Williamson
In Section 51, their main focus continues to be on GPC where they are buying down to meet Basic in most cases; Section 53 reports buy-downs of $1.50 to $1.65. In instances where they are beating the price on Basic through buy-downs, our "Meets Comp" program has overcome any advantage previously held by GPC.

In Section 54, GPC continues to be bought down extensively at retail with prices of $1.00 to $1.20 per pack. It appears, however, that MLP has impacted on B&W's sales efforts.

American
In Section 54, the only significant activity during the month was Prime where distribution gains have been noted in the San Diego market. The brand has been offered to retailers at $8.25 per carton as an introductory price. The other area experiencing extensive activity in Prime is Hawaii where American appears to be targeting supermarket accounts for increased distribution and buydown to the lowest price in the store.

Special 10's being heavily promoted by the pack in C-stores in Section 53. Prices range from 55¢ to 99¢, and in most cases also offering a free lighter attached. Sales are fair.

Liggett & Myers
In Section 51, impact from GPA Eagle has been minimized through "Meets Comp" initiatives.

Lorillard
In Section 53 Newport is offering a pair of sunglasses, 6-pack cooler, or hat with a 2-pack purchase. Sales are good in high-menthol areas.

IV. CUSTOMER DEVELOPMENT

Sheehan Majestic/Doyles Distributors
We recently conducted SBO promotions with these two distributors as part of their yearly summer promotion and as of last report, they have sold over 20,000 cartons.

Costco Headquarters - Kirkland, WA
In a recent meeting with Jim Mortensen and Jim Thomas, Costco Buyer Terisa Wilkins indicated that PM seemed much more sensitive and concerned about their business than our competition.

Jackpot - Seattle, WA (111 stores)
Recently participated in a video shoot done by PM's Elliot Berd for the upcoming NASC Convention. The shoot was done in Jackpot's Centralia store regarding their coffee business.

Safeway - Clackamas, OR (101 stores)
They will provide Section 51 with pricing information on Scotch Buy to allow for a "Meets Comp" proposal on Basic. Jerry Hoffman Grocery Merchandiser Director indicated he will revisit a possible shared fixturing program with PM and RJR.

Plaid Pantry - Portland, OR (102 stores)
During MLP, full margin category went from 42.5% to 52.6% and discount brands dropped from 37.1% to 32.7%. Strategy of pricing Marlboro at $1.99 per pack compared to Camel's $1.89 backfired for RJR where Marlboro outsold Camel 6-to-1.

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Source: https://www.industrydocuments.ucsf.edu/docs/yjxl0000

PACE Membership Warehouse (102 warehouses)
They will be instituting new price tiers the morning of August 7, 1993. With the reduction in price and with the need to reset SKU's, PACE will become SKU specific in 72 warehouses. This will result in more efficient reports generated to their customers and will be able to track brand volume. The remaining 30 warehouses will become SKU specific by the end of September.

Customer Company - Benicia, CA (100 Stores)
Customer Company's continuous participation in MLP has resulted in a 13% increase for Marlboro carton sales and tripled Marlboro pack sales. PM has exclusive POS advertisement. PRP program will be fully executed in all 100 stores on August 9, 1993. At this time, no other manufacturers have offered a retail program for their price reduction. Ned Roscoe has stated he will not lower any of our competitor's prices at retail on August 9.

Raley's - Sacramento, CA (64 Stores)
Raley's extended the MLP II to August 8, 1993. The PRP program and the participation bonus were rejected during the initial contact with buyer Lee Salo. Raley's would not lower their price on August 9 until they knew what their competition's retail prices were going to be. A follow-up presentation is scheduled.

The new customized PM CF units are scheduled for delivery to the warehouse on 8/30/93.

Core-Mark Distributors
Both houses in Section 54 reported being up to date with SBO activity. Several complaints have been received from other distributors that Core-Mark was breaking down the Basic B1G1F promotion and selling the product at half price in order to gain new distribution; this has not been substantiated.

Vons Companies
In Section 54, the account participated in both MLP programs with a Marlboro sales increase of 20%. The PRP program was presented to the account on 7/28; however, we have encountered difficulties regarding signage requirements.

United Oil
Due to aggressive pricing and merchandising, MLP sales are in excess of 200% of allocation. The account accepted Basic during the month with a plus out of twenty cartons to each store.

ARCO AM/PM
A 3-year Retail Masters agreement was signed during the month.

Results on MLP continue to be good and the PRP program was accepted during the month.

Ralph's Grocery Company
Implementation of the new carton and package fixtures is scheduled for the week of 9/7. The account reported good results with MLP and accepted the PRP program.

Citing increases in market share in Southern California, the account added 4 packings of GPC during the month.

Stater Bros.
While the account expressed some unhappiness with the PRP program, they have elected to participate. As this is the only major supermarket chain that is non-direct, their inventory levels at retail tend to run quite high.

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Source: https://www.industrydocuments.ucsf.edu/docs/yjxl0000

Thrifty Drug
Thrifty has now sold or closed 29 stores during the past three months. They will no longer operate stores in Arizona, and reports indicate that they will be selling 8 stores in Nevada very soon. Anticipation is that they will level out at 500 stores.

Thrifty Oil Company
Reports extremely good success with MLP due to their pricing of cartons at $14.99 and packs at $1.89. At present, no decision has been made on PRP as of yet.

The Price Club
The Price Club accepted MLP during the last three weeks of the program. The reason for their late participation was due to a decline that they noted in their consumer volume.

V. SECTION/REGION EVENTS

WestPac - Lathrop, CA
On July 22 and 23, Philip Morris attended WestPac's annual Food Show. PM offered 15¢ off a carton on all Basic packings with a 50-carton maximum deal. The response from Raley's, Save Mart, Bel Air, and Food Maxx was very good. We were able to close distribution gaps and increase our depth of inventory on the chain's exclusive Deep Discount brand. Sponsoring a booth at the Food Show not only increased our Basic sales and distribution, but also re-emphasized our ongoing commitment as the cigarette category expert and First Tier supplier.

Cheyenne Frontier Days began on July 23rd and ran through August 1st. Marlboro is a major sponsor of this event. In addition to signage on the rodeo grounds, we had two Marlboro vans working Cheyenne during the event. We also had a 20' x 20' booth in the rodeo grounds. The booth was selling cigarettes, as well as giving away water bottles, lighters and fanny packs. For next year's rodeo, we suggest Marlboro T-shirts, baseball caps and lighters which are more of an interest to rodeo fans, rather than the items we utilized this year.

VI. ORGANIZATION/PERSONNEL

The Seattle District continues their involvement in the new Sales Rep Training Program and recently met with Susan Opengart, Bob Warren and Linda Carlisle to discuss the progress of this project.

After five months, we were able to finally redeploy the Phoenix market, absorbing one territory due to the overall market lack of retail calls.

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Source: https://www.industrydocuments.ucsf.edu/docs/yjxl0000